

WATER/ABJ/EYC:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Branch**

**RESOLUTION NO. W-4461
March 16, 2004**

R E S O L U T I O N

**(RES. W-4461) CENTRAL WATER SYSTEM (CWS). ORDER
AUTHORIZING AN INCREASE IN GENERAL RATES
PRODUCING AN INCREASE IN ANNUAL REVENUES OF
\$ 2,015 OR 14.3% FOR TEST YEAR 2003.**

SUMMARY

By Draft Advice Letter, accepted on April 28, 2003, CWS seeks an increase in rates for water service to recover increased operating expenses and to provide an adequate rate of return on its capital investment. This resolution grants a general rate increase in gross annual revenues of \$2,015 or 14.3% for Test Year 2003. This increase will provide a 12.61% rate of return on rate base in the test year, and grant the full amount of the increase requested.

BACKGROUND

CWS is a Class D water utility and serves approximately 42 residential flat rate customers in the community of Strathmore about eight miles northwest of Porterville, Tulare County. CWS requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$2,015 or 14.3% in 2003.

CWS' request shows 2003 gross revenue of \$14,112 at present rates increasing to \$16,128 at proposed rates. CWS did not provide rate base and rate of return information in its request.

CWS' present rates became effective on January 1, 1993, pursuant to Res. W-3616, which authorized a general rate increase of \$5,544 or 100% for test year 1992 and \$3,042 or 27.3% in 1993. A 12.78% rate of return was found reasonable.

DISCUSSION

The Water (Division) made an independent analysis of CWS' summary of earnings and issued its report in August 2003. Appendix A shows CWS' and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between CWS' and the Division's estimates in operating revenues, expenses, and rate base.

CWS was informed of the Division's differing views of operating revenues and expenses and agreed to accept the Division's estimates.

CWS did not provide an estimate of rate base and therefore did not request a rate of return in its filing. The Division, however, did evaluate the rate base and rate of return, the results of which are shown in Appendix A. The Summary of Earnings in Appendix A shows a rate of return of 12.61% at the Division's recommended rates. The Division normally recommends a rate of return that is at the midpoint of the range of 12.4% to 13.40%, which is currently recommended by the Commission's Audit and Compliance Branch. In this case it would be 12.90%. CWS, however, does not wish to increase revenue by more than it requested. Limiting the authorized increase to what was requested by the utility produces the 12.61% rate of return.

In Decision (D.) 92-03-093 effective April 30, 1992, the Commission adopted the Operating-Ratio Method (ORM) of ratemaking as an alternate to the Return on Net-Investment (Rate Base) method for Class C and Class D Utilities and recommended that the Division use the method that produces the higher result. Accordingly, the Branch applied these two respective methodologies to CWS. Branch found that the return on investment calculation produced a revenue requirement of \$16,128 allowing the total increase in revenue requested by the utility producing a rate of return of 12.61%. Using a margin of 20%, the ORM method yields a revenue requirement of \$15,293. The Division, therefore, recommends the revenue requirement of \$16,128 to the Commission based on the return on investment method.

CWS' filed tariffs currently contain two rate schedules: No. 1, General Metered Service; and No. 2, Flat Rate Service. In its request, CWS requested that all rates be increased by the system average increase. The Branch increased the quantity rate by the system average, but the metered rates required a different percentage to ensure the net revenue would reconcile with the total revenue.

The Branch also recommends that the metered rate schedule be revised to conform to the Commission's metered rate design policy established by D.86-05-064. The recommended metered schedule has service charges, which recover up to 100% of CWS fixed costs and a single quantity rate, which would recover the balance. The customer charges would be approximately the same under the metered rate schedule as under the flat rate schedule for a customer who uses 12 Ccf per month (One Ccf is one hundred cubic feet). Assuming an average of 12 Ccf per customer per month (similar usage as other like systems) if a customer requested a switch from flat to metered rates, the bill of \$32.08 would remain roughly the same.

At the Branch's recommended rates shown in Appendix A, the monthly bill for a flat rate customer will increase from \$28.00 to \$32.00 or 14.28%. Bill comparisons are shown in Appendix C.

A comparison of customer bills at present and recommended rates is in Appendix C. The adopted quantities are shown in Appendix D.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer on June 17, 2003. The Division received no letters protesting the increase.

A public meeting was held on July 14, 2003. The Commission's representative explained Commission rate-setting procedures. The utility's representatives explained the need for the rate increase. One customer attended the meeting and asked general questions about the rate increase.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements.

The utility has been filing annual reports as required. CWS needs to update its Schedule LC, Late Payment Charge; Title Page; Preliminary Statement; Rules 3, Application for Service; 4, Contracts; 5, Special Information Required on Forms; 6, Establishment and Re-Establishment of Credit; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 15, Main Extensions; 16, Service Connections, Meters, and Customer's Facilities; and Forms

2, Customer's Deposit Receipt; and Form 3, Bill for Service, and the Connection Fee Data Form.

The Division recommends that the Commission authorize a rate increase in general metered rates of \$13,279 or 12.3%. This will increase estimated annual metered revenues from \$107,581 to \$120,860 at recommended rates as shown in Appendix A. As previously explained, this increase will produce a 12.6% rate of return.

FINDINGS

1. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. CWS should be ordered to update its Schedule LC, Late Payment Charge; Title Page; Preliminary Statement; Rules 3, Application for Service; 4, Contracts; 5, Special Information Required on Forms; 6, Establishment and Re-Establishment of Credit; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 15, Main Extensions; 16, Service Connections, Meters, and Customer's Facilities; and Forms 2, Customer's Deposit Receipt; and Form 3, Bill for Service, and the Connection Fee Data Form.
5. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.
6. This is an uncontested matter subject to the public notice comment exclusion provided in the PU Code Section 311 (g)(3).

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Central Water System, to file an advice letter incorporating the summary of earnings and the

revised schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service and Schedule No. 2, Flat Rate Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of its filing.

2. Within 90 days, Central Water System is ordered to update its Schedule LC, Late Payment Charge; Title Page; Preliminary Statement; Rules 3, Application for Service; 4, Contracts; 5, Special Information Required on Forms; 6, Establishment and Re-Establishment of Credit; 7, Deposits; 8, Notices; 9, Rendering and Payment of Bills; 10, Disputed Bills; 11, Discontinuance and Restoration of Service; 15, Main Extensions; 16, Service Connections, Meters, and Customer's Facilities; and Forms 2, Customer's Deposit Receipt; and Form 3, Bill for Service; and the Connection Fee Data Form.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on March 16, 2004; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President

CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

APPENDIX A

CENTRAL WATER SYSTEM

SUMMARY OF EARNINGS

Test Year 2003

Item	Utility Estimated		Branch Estimated		Adopted Rates
	Present Rates	Requested Rates	Present Rates	Requested Rates	
<u>Operating Revenue</u>					
Flat Rates	\$ 13,358	\$ 15,373	\$ 14,112	\$ 16,128	\$ 16,128
Total	\$13,358	\$15,373	\$14,112	\$16,128	\$16,128
<u>Operating Expenses</u>					
Purchased Water	28	28	0	0	0
Power	3,525	3,525	5,637	5,637	5,637
Employee Labor	0	0	0	0	0
Materials	26	26	312	312	312
Contract Work	1,326	1,326	2,098	2,098	2,098
Transportation Exp.	1,214	1,214	531	531	531
Other Plant Maintenance	0	0	0	0	0
Office Salaries	0	0	0	0	0
Management Salaries	0	0	0	0	0
Employee Benefits	0	0	0	0	0
Office Services & Rental	0	0	0	0	0
Office Supply. & Exp.	0	0	504	504	504
Professional Services	75	75	0	0	0
Insurance	0	0	683	683	683
Regulatory Comm. Exp.	0	0	0	0	0
General Expenses	0	0	900	900	900
Subtotal	\$6,194	\$6,194	\$10,665	\$10,665	\$10,665
Depreciation Expense	\$0	\$0	\$809	\$809	\$809
Property Taxes	75	75	319	319	319
Payroll Taxes	0	0	0	0	0
State Income Tax	0	0	800	800	800
Federal Income Tax	0	0	228	530	530
Total Deductions	\$6,269	\$6,269	\$12,821	\$13,123	\$13,123
<u>Net Revenue</u>	\$7,089	\$9,104	\$1,291	\$3,005	\$3,005
<u>Rate Base</u>					
Average Plant			34,746	34,746	34,746
Avr. Accum. Deprec.			10,921	10,921	10,921
Net Plant			23,825	23,825	23,825
Less: Contributions			0	0	0
Advances			0	0	0
Rate Base			\$23,825	\$23,825	\$23,825
<u>Rate of Return</u>			5.42%	12.61%	12.61%

APPENDIX B
CENTRAL WATER SYSTEM

Schedule No.1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Tract No. 247, and vicinity, adjacent to Cairns Road approximately four miles west of the community of Strathmore, Tulare County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
All Water used per 100 cu. ft.....	\$1.34	(I)
Service Charge:		
For 5/8 x 3/4-inch meter	\$16.00	(I)
For 3/4-inch meter	\$24.00	(I)
For 1-inch meter	\$40.00	(I)
For 1-1/2 inch meter	\$80.00	(I)
For 2-inch meter	\$128.00	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No.UF.

APPENDIX B
CENTRAL WATER SYSTEM

Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable only to flat rate residential water service furnished on a flat rate basis.

TERRITORY

Tract No. 247, and vicinity, adjacent to Cairns Road approximately Four miles west of the community of Strathmore, Tulare County.

RATES

Per Service Connection
Per Month

For each single family residence.....	\$32.00	(1)
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SPECIAL CONDITIONS

1. The above residential flat rate charges apply to service connections not larger than one-inch diameter.
2. All service not covered by the above classifications will be furnished only on a metered basis.
3. Meters may be installed at the option of the utility in which event service thereafter will be rendered only on the basis of schedule No. 1, General Metered Service.
4. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX C
CENTRAL WATER SYSTEM
COMPARISON OF RATES

A comparison of the present and Branch's recommended rates is shown below:

Monthly bill for a flat rate customer:

Per Meter Per Year			
Present Rates	Recommended Rates	Increase	
		Amount	Percent
\$28.00	\$32.00	\$4.00	14.29%

Comparison of average monthly customer bill at present and authorized rates for a 5/8 x 3/4-inch meter service using 1,200 cubic feet of water:

Per Meter Per Month			
Present Rates	Recommended Rates	Increase	
		Amount	Percent
\$24.90	\$32.08	\$7.18	28.84%

APPENDIX D

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CENTRAL WATER SYSTEM

ADOPTED QUANTITIES

Test Year 2003

Expenses:

1. Purchased Power (Electric)	
Vendor	SoCal Edison
Schedules	GS-1
Effective Date	1/1/96
Total Cost (\$)	\$5,637
2. Purchased water	0
3. Insurance Expenses	
Property	\$0
Liability	\$0
Automobile	\$683
Total Cost	\$683
4. Ad Valorem Taxes	\$319
Composite Tax Rate	1.0000%
Assessed Value	\$31,900

(continued)

APPENDIX D

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CENTRAL WATER SYSTEM

ADOPTED QUANTITIES

Test Year 2003

5. Payroll Taxes		\$0
FICA		\$0
Federal Unemployment		\$0
State		\$0
Unemployment		
6. Number of Service Connections:		
Metered Rate		
5/8 x 3/4-inch service	0	
3/4-inch service	0	
1-inch service	0	
1 1/2 -inch service	0	
2-inch service	0	
Flat	42	
Rate		
Total	<hr/>	42

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APPENDIX D

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CENTRAL WATER SYSTEM

ADOPTED QUANTITIES

Test Year 2003

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$16,128	\$16,128
2.	O & M Expenses	\$10,665	\$10,665
3.	Taxes Other Than Income	\$319	\$319
4.	Deprecation	\$809	\$809
5.	Taxable Income for State Tax	\$4,335	
6.	State Tax	\$800	
7.	Taxable Income for FIT		\$3,535
8.	Federal Income Tax		\$530
9.	Total Income Tax		\$1,330
California Corporate Franchise Rate		8.84%	
Federal Income Tax Rate			
	On first \$50,000 of taxable income	15%	
	On next \$25,000 of taxable income	25%	